



GSW Limited/Limitée
Executive Offices
45 St. Clair Avenue West
Toronto, Ontario, Canada
M4V 1K9

Facts in Brief

(\$000's except per share data)

	1978	1977 Restated
Sales	\$58,655	\$51,236
Net income before extraordinary items	3,552	858
Net income after extraordinary items	3,823	858
Earnings per common share		
Before extraordinary items	.86	.20
After extraordinary items	.92	.20
Extraordinary dividends on common shares	13,742	—
Working capital	9,901	18,214
Current ratio	2.1 to 1	2.8 to 1
Shareholders' equity	18,025	28,005

Board of Directors

R. M. Barford
P. de Gaspé Beaubien
W. J. Bushnell
H. B. Davis
G. M. Farquharson, Q.C.
D. S. R. Leighton
J. K. Loudon
R. A. Stevens
Ben Wosk

Director Emeritus

Miss M. P. Hyndman, Q.C.

Officers

R. M. Barford,
Chairman
R. A. Stevens,
President
G. S. Dickson,
Vice-President, Corporate
W. A. Farnell,
Vice-President
D. G. Fixter,
Vice-President, Finance
F. O. Price,
Vice-President,
Research and Development
N. H. Smith,
Vice-President, Corporate
D. G. Woodrow,
Vice-President
G. M. Farquharson, Q.C.,
Secretary
W. D. Campbell,
Assistant Treasurer
D. A. Barnes,
Assistant Secretary

Share Transfer Agents

Common Shares,
National Trust Company
Limited

Preferred Shares,
The Canada Trust Company

Bank

The Bank of Nova Scotia

Audit

Clarkson, Gordon & Co.

Annual Shareholders Meeting

April 25, 1979
Canada Trust Building
110 Yonge Street, 4th Floor
Toronto, Ontario
at 11:00 A.M.

Ce Rapport Annuel est
disponible en français, sur
demande. Adressez vos
demandes à:
GSW LIMITÉE/GSW LIMITED
45 St. Clair Avenue West
Toronto, Ontario, Canada
M4V 1K9
Attention: Secrétaire Adjoint

There's a strong sense of purpose at GSW; a sense of pioneering, in new markets particularly. There's a commitment to the world markets, and to the total North American market which is now perceived as GSW's domestic territory. That single perception has opened up a new frontier. Morale is high and strategy is clear.

Bob Stevens, President of GSW, discusses the kind of planning that has led to the clarification of corporate goals and objectives, "We are involved in conceptual planning—looking ahead fifteen years. We are also committed to the achievement of three-year strategic plans at the divisional level".

It was as a result of conceptual planning that GSW joined with CGE in the creation of CAM Co. to rationalize the major appliance industry in Canada; that GSW divested itself of the housewares and farm equipment divisions; that GSW determined to look beyond its traditional markets to all of North America and the developing countries of the world.

GSW takes its conceptual planning seriously, and approaches it creatively. In these endeavours, expert advice is sought both inside and outside the company. The Board of Directors is actively involved in the planning process.

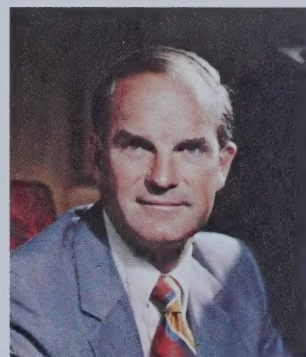
Bob Stevens explains GSW's corporate philosophy in more detail. "We want to claim a major portion of every market we're in. We have chosen to eliminate certain divisions

and retain others because of their potential to achieve our market ambitions. In planning ahead fifteen years, we have a better chance of knowing where we're going, what the markets will be, and what products and resources will be required."

GSW is looking toward acquisitions, joint ventures and technology licences within its product scope. The company has completed the narrowing of its product scope in order to pursue its goal of significant market share.

Management philosophy is one of decentralization; autonomy to the divisions so that management decisions can be made at the lowest possible level.

Bob Stevens sums it up: "I think that our people are well-motivated. I think they're ready for the challenge and opportunities that lie ahead. And, I think they're excited about the new spirit, the new determination and the new vitality that is GSW today."



R. M. Barford
Chairman



R. A. Stevens
President



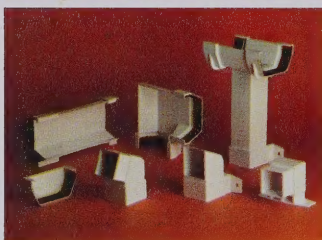
D. G. Fixter
Vice-President, Finance

Building Products Division

Galvanized Ware, Dairy Pails, Stove Pipe, Waste Baskets

Metal and Vinyl Roof Drainage

Toilet Compartments, Lockers and Gym Boxes



Gordon Woodrow
Vice-President & General Manager,
Building Products Division

"Innovation is our motto. We're always looking for new markets, new products and refinements that complement our existing lines. This is a dynamic operation that hasn't yet begun to realize its full potential."

The dynamic nature of the Building Products Division is typified by its General Manager, Gord Woodrow. He says of his own position, "It's an action-oriented job, but one requiring sound planning."

The Building Products Division was created in the

latter part of 1978 by merging the marketing, administration and engineering for the Building Products Division, (London), the Centre Moulded Plastics Division, (Barrie), and the Metalwares Division, (Hamilton). Now, unified and headquartered in Hamilton, the Building Products Division is able to utilize its product and human resources more effectively.

Lockers and toilet partitions are manufactured in London and sold to both the new construction market and the renovation market. Consolidation of colours and sizes, allowing standard merchandise to be stocked, will greatly improve service to our customers.

The Barrie moulded plastics plant produces the majority of GSW's vinyl production components.

This plant also manufactures the new rectilinear vinyl raingoods, a snap-seal system for eavestroughs, downpipes and fittings.

A complete line of steel, aluminum and vinyl raingoods is offered to distributors. Products are convenience packaged for longer shelf-life and damage-free handling.

The Building Products Division also manufactures stove pipe and galvanized garbage cans. Stove pipe sales showed excellent growth in 1978 and should continue strong in 1979 as the market for wood-burning stoves continues to expand.

In 1978, the Building Products Division began selling its products in the United States and plans to expand its activities in this important market in 1979.





Pump Division

Beatty, McDougall, Sta-Rite
Domestic Water Pumps,
Tanks and Accessories

Barnes Sewage, Effluent and
General Purpose Pumps

Engine Driven Contractor
Pumps

Sta-Rite Swimming Pool
Equipment



Mike Hickman
General Manager,
Pump Division

"We've completed the Pump Division rationalization with a tremendous feeling of confidence in our future and in our market activities."

The GSW Pump Division is the largest domestic pump manufacturer in Canada. It produces a variety of portable water and sewage pump products to serve the domestic, industrial and commercial markets.

The company's diverse pump operations were merged into one pump division in 1977. In 1978 production was rationalized on the Fergus and Winnipeg

plants and the Ajax facility was closed.

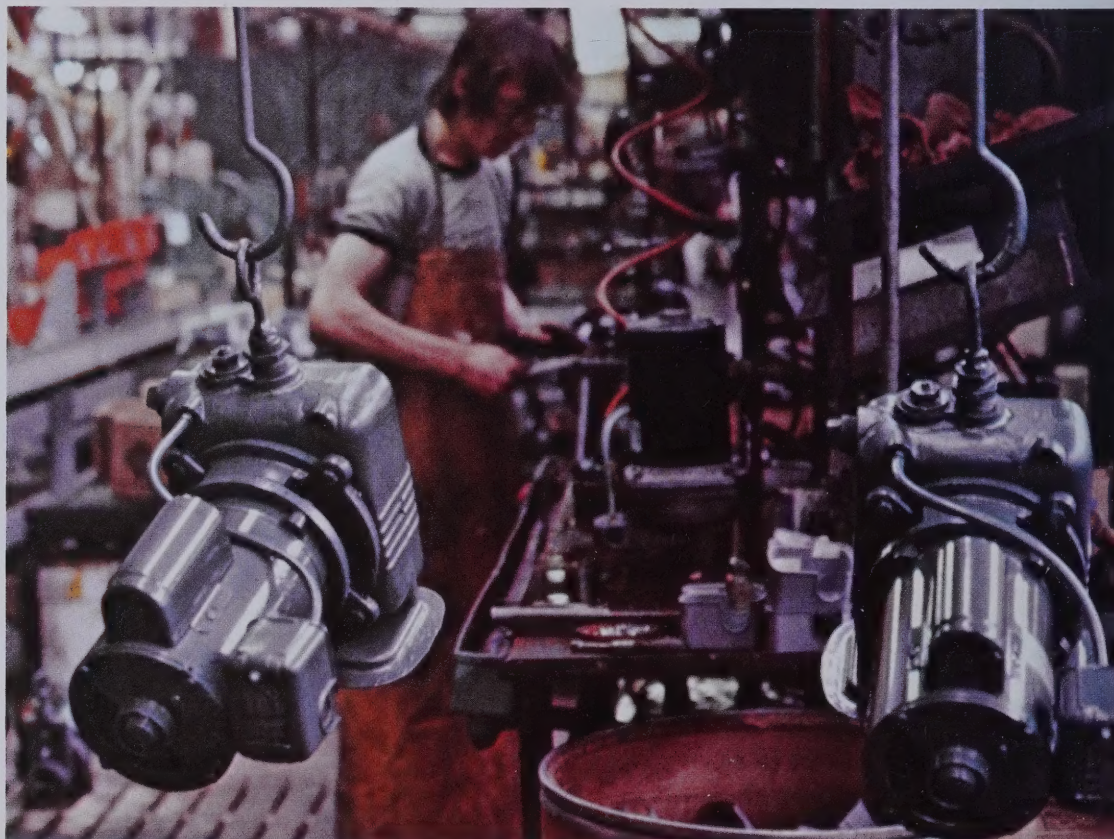
Prior to this consolidation, specific brands were manufactured and marketed by different divisions. In 1978 the production changes were accompanied by changes in marketing organization.

It was decided to sell all sewage equipment under the Barnes name; to consolidate our dealer network under the Beatty name, our wholesale network under the McDougall name, and our well-driller line under the Sta-Rite name. This enabled greater selling concentration on each brand and each channel supported by better product differentiation.

Hickman describes the division's current strategy: "We've redesigned our products to include the latest

technology, and we've improved methods of production in the plant. At the same time, we're trying to optimize our buying power with our suppliers to hold down the cost of our materials."

A major activity over the past few years has been personnel development and human relations. Mike Hickman comments: "The success of any organization is a function of the people. We have a strong divisional management team and the best sales force in the industry. We have succeeded in fostering the feeling that we are one family in the Pump Division."



Where to reach us:
599 Hill Street West
Fergus, Ontario
N1M 2X1
(519) 843-1610



PUMP

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Industrial Division

Wringer Washers, Wringers and Components



Bill Arbuthnot
General Manager,
Industrial Division

"Our wringer washers are recognized as high quality, trouble-free products with years of manufacturing stability behind them. Our capability is well-known;—and that's a plus in the export market."

Although GSW's Industrial Division still manufactures wringer washers for distribution in Canada, the majority of its output is sold into a rapidly expanding export market.

Bill Arbuthnot comments, "In the Middle East and in South America, where high-pressure water systems are uncommon, the wringer

washer is the preferred product. It also represents a luxury and a source of pride to many individuals in these countries."

In 1978 GSW realized substantial growth in sales and world market share for wringer washers. The opening of new export trading opportunities frequently follows prolonged development efforts. The cumulative effect of past efforts was reflected in 1978 and provides positive momentum as we enter 1979.

With the growing aspirations in developing countries for manufacture or assembly of products, the division is in a strong position to licence technology and supply components for assembly of wringer washers as the market develops.

The current strategy is to market in foreign countries

through trading companies who are familiar with the customs, language, people and marketing conditions in their territories.

There is an understandable excitement about the challenge associated with marketing successfully in the developing nations of the world, and there's an appreciation of the human resources required to meet that challenge.

Bill Arbuthnot states simply: "It's important to have good interpersonal relationships among management and the skilled people involved in the manufacturing processes. We work as a team even though we're all individualists. People talk to each other about their ideas and that kind of communication leads to positive achievements."





Water Heater Division

Electric and Gas Water Heaters

Glass Lined Range Boilers and Storage Vessels



Bill Farnell,
Vice-President & General
Manager,
Water Heater Division

"In order to meet our objectives in the coming year we intend to be more aggressive, service conscious and more aware of new account potential."

Catering to residential, construction and small commercial establishments, the Water Heater Division markets its line of products through plumbing and heating wholesalers, utilities and retail chains. The product line consists of both gas and electric water heaters with

capacities from 12 to 100 gallons.

In 1978 the division placed emphasis on expanding its productivity and reducing costs through the addition of a specialized pump tank line and by adding more sophisticated manufacturing techniques and processes.

The division's engineering personnel actively monitored industry standards and product quality. During the year engineering was begun on several additions to the product line and additional code and standards approvals were obtained.

In 1978 the sales and marketing organization was strengthened by the addition of new management personnel who bring considerable

skills and experience to the division. These changes in combination with the additions made to the sales force in 1977 provide the Water Heater Division with an aggressive and knowledgeable sales and marketing team.

Farnell explains: "Our marketing strategies will be more innovative and we intend to enlarge our product lines further. Our strategy, quite simply, is to make strong inroads into the marketplace—by stressing product quality and service. At GSW we have the people to meet that need."

Bill Farnell, Vice-President, and General Manager, Water Heater Division, is shown (at left) in discussion with Norm Smith, Vice-President, Corporate.





International Division

Sales of all product lines
in markets outside North
America

George Dickson

Vice-President, Corporate
and General Manager,
International Division

"If you're going to be in the export business, you can't do it as a side-line. Time, capital and energy have to be committed. With the products, quality and talent we have, we plan to realize major growth."

Vision and foresight are important to George Dickson as he contemplates the world markets opening up to GSW's International Division.

For these reasons the International Division was formed in 1978 to assume

responsibility for all marketing efforts outside North America. The division successfully exports wringer washers to the major world markets and it is in the process of developing international sales strategies for the other GSW products.

Enthusiasm and confidence are the characteristics of an aggressive approach to the developing nations where there is the greatest demand for GSW products. Dickson explains, "Our products provide value equal to any in the world and with the current value of the Canadian dollar, we have an excellent trade advantage. We must develop our opportunities skillfully in order to

supply the kind of products that our export customers really want."

George Dickson goes on to say: "You have to approach the international marketplace with an open mind. You must listen to customers and develop products that are consistent with their needs."

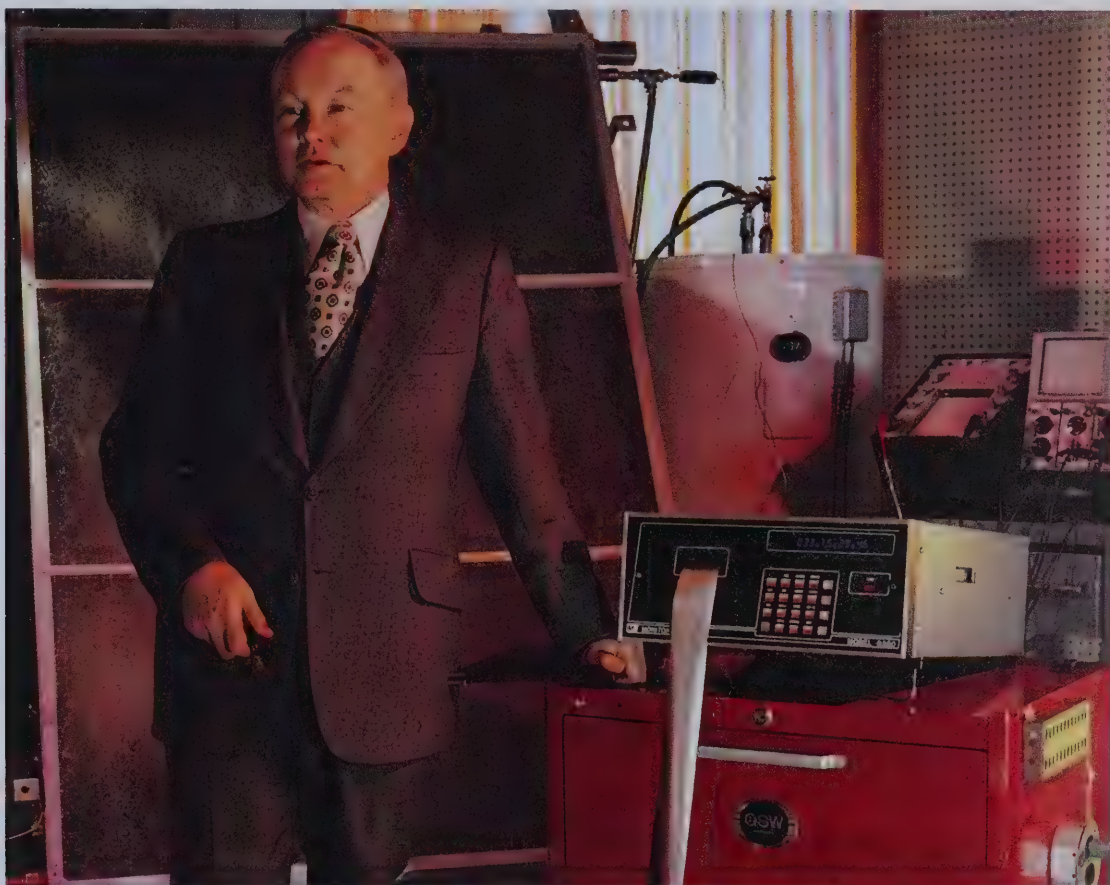
The International Division is expected to make a tangible contribution to GSW's growth and profitability in 1979.

George Dickson, Vice-President, Corporate and General Manager, International Division is shown (at left) in conversation with Bill Rishchynski, Sales Manager, International Division.



Where to reach us:
1183 Finch Avenue West,
Suite 307
Downsview, Ontario
M3J 2G2
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Research and Development



Frank Price
Vice-President,
Research & Development

"We believe we have an advantage in this company because of our investment in research and development. As our domestic and international markets expand, R&D will play an ever important role in supporting our manufacturing divisions."

Where to reach us:
2275 Speakman Drive
Sheridan Park
Mississauga, Ontario
L5K 1B1
(416) 822-3641

The primary function of GSW's R&D operation is to provide technical guidance and assistance to the operating divisions. This important support function may take the form of examination of new product areas such as an investigation into solar energy applications, research into higher efficiency components, or consideration of new materials. Or, it may take the form of intensive design assistance in the development of new products.

GSW is deeply committed to its R&D function, however, its approach to R&D combines pragmatism with sophistication. In terms of technology information, R&D maintains an impressive current library, especially in those areas of

immediate interest to the company. In addition, R&D has a computer library search facility tied into the national libraries in both the United States and Great Britain. Explains Price, "For example, we're interested in new developments in vinyl, polyvinyl chlorides, and our computer library search capability is extremely useful in pursuing those interests."

Research & Development is involved in projects that are self-initiated as well as those initiated by the operating divisions. Both types of projects, however, add to GSW's impact in the marketplace. The Centre also serves as a liaison with government agencies for most technical matters affecting the company.

Report of the Board of Directors

To the Shareholders

Net income in 1978 was \$3,552,000 or 86¢ per share before extraordinary items compared to restated income of \$858,000 or 20¢ per share in 1977. Net income in 1978 after extraordinary items was \$3,823,000 or 92¢ per share, while there were no extraordinary items in 1977.

The earnings improvement in 1978 was derived from both GSW operations and the company's equity interest in Canadian Appliance Manufacturing Company Limited.

GSW Operations

Sales of \$58,655,000 in 1978 were 14% higher than 1977 sales of \$51,236,000. The markets for GSW products showed modest growth and the sales increase reflected general improvement in market share, addition of the new vinyl raingoods and increased export sales.

Net income for the year from GSW operations was \$1,650,000 or 40¢ per common share compared to \$1,125,000 or 27¢ per common share in 1977. Operating income showed improvement in 1978 despite the margin pressure from continued competitive market conditions.

Investment was under good control during 1978 with year-end investment in operating assets lower than 1977 due to sale of the Housewares division. Accounts receivable were higher than a year ago at December 31, because of strong sales in the fourth quarter of 1978, however days outstanding were lower. Inventories were lower in future weeks' requirements than a year ago.

GSW entered 1978 with cash and short-term securities of \$8,550,000 and paid out extraordinary cash dividends of \$13,742,000 or \$3.35 per common share. During the year, your company realized cash on the sale of its Housewares and Commando Chrome divisions and land in London, Ontario. It also sold its remaining notes receivable in Canadian Appliance Manufacturing Company and closed the year with a cash balance of \$761,000.

Resources were invested in capital and tooling to lower unit costs and introduce new products in GSW's continuing businesses. In addition, significant expenditures were incurred in order to develop future sales outside Canada.

Canadian Appliance Manufacturing Company Operations

In its second year of operation, this company, in which GSW holds 50% of the voting stock and 40% of the equity, had sales of \$273,109,000, compared to \$266,956,000 in 1977. Net income was \$4,870,000 compared to the restated 1977 loss of \$508,000.

GSW's share of the Canadian Appliance Manufacturing Company's net income in 1978, less amortized acquisition costs, was \$1,902,000 or 46¢ per share. In 1977 GSW's share of the restated loss was \$267,000 or 7¢ per share after amortization of acquisition costs.

The 1978 annual report of The Canadian Appliance Manufacturing Company has been mailed to GSW Shareholders.

Corporate Developments

a) Organization and Personnel: In 1978, your company completed organization changes in its continuing operations which provide a sound structure for achieving future objectives.

On January 25, 1978, D. Gordon Woodrow, General Manager of the Metalwares Division, was appointed a Vice-President. Mr. Woodrow assumed management responsibility for the new Building Products Division created by the merging of the former Metalwares, Building Products, and Centre Moulded Plastics divisions. The division is based in Hamilton and will continue to operate plants at the same locations.

On August 1, 1978, William A. Farnell joined the company as Vice-President and General Manager of the Water Heater Division. Mr. Farnell has an outstanding record of achievement in the water heater industry.

Also on August 1, George S. Dickson, Vice-President, Corporate, and General Manager of the Industrial Division, assumed responsibility for a newly created International Division. This division will concentrate on the sale of all GSW products outside our North American market. William R. Arbuthnot was appointed General Manager of the Industrial Division.

The EPM Pump Co. and the Barnes Pump Co. were consolidated within the GSW Pump Division under Michael O. Hickman, General Manager. The division completed rationalization of its production facilities in Fergus, Winnipeg and Bramalea.

b) Acquisitions and Divestitures: Your company continues to evaluate potential acquisitions as a means to grow within our defined business areas and efforts were directed particularly to divesting GSW of assets and businesses which are not consistent with our long-term business plan.

Early in 1978 the sale of 43.7 acres of vacant land to the City of London was completed and the Commando Chrome Division was subsequently sold. Proceeds from these sales approximated net book value.

As a result of GSW planning activities, your Board decided that the Housewares Division did not fit our restated corporate objectives because it was manufacturing and selling products subject to rapid changes in consumer preference. This business was sold on October 31, 1978 to a Quebec-based company with interests in related products. The cash realized on sale of the assets was in excess of their net book value and the resulting extraordinary gain was \$271,000 or 6¢ per share. We are confident that the effect on GSW's future earnings and direction will be positive.

c) Dividends: In 1978 your company paid extraordinary cash dividends of \$3.35 per common share. Payment of these dividends resulted in full distribution to shareholders of the company's 1971 Capital Surplus on Hand under the favourable income tax elections which were available up to December 31, 1978. These special distributions were

the first dividends on common shares since 1961. They returned to shareholders some of the earnings retained in the business to finance growth since then.

The Board of Directors will consider the establishment of regular dividends out of future earnings in the coming year.

d) Direction for the Future: As a result of the sale and reorganization of divisions, GSW is now concentrated into four key businesses. Each business is managed by a highly motivated team which is dedicated to attaining growth and profitability objectives. From this base your company will be seeking acquisitions in these four industries. We are optimistic that 1979 will see continued improvement in operating results for both GSW operations and Canadian Appliance Manufacturing Company.

Conclusion

1978 was a year of significant achievement; strong sales growth, major improvement in profitability, concentration into businesses with good potential for the future and the change brought about by a redirection of your company's activities.

In a year of change and accomplishment, the Board wishes to express its appreciation to each employee.

On behalf of the Board:



R. A. Stevens
President



R. M. Barford
Chairman

Consolidated Balance Sheet

December 31, 1978

(with comparative figures for 1977)

Stated in \$000's		1978	1977 Restated (note 6)
Assets	Current:		
	Cash and short term deposits	\$ 761	\$ 8,550
	Accounts receivable	7,630	6,985
	Inventories—		
	Finished goods	3,546	4,348
	Raw materials and work in process	6,314	6,446
	Prepaid income taxes and expenses	1,017	957
	Current portion of notes receivable	—	1,012
	Total current assets	19,268	28,298
	Investment in Canadian Appliance Manufacturing Company Limited (note 5):		
	Shares	6,811	4,909
	Notes receivable, non-current portion	—	3,035
	Total investments	6,811	7,944
	Fixed:		
	Land, buildings and equipment	9,692	11,374
	Less accumulated depreciation	6,700	7,279
	Total fixed assets	2,992	4,095
Total assets		\$29,071	\$40,337

On behalf of the Board:

R. A. Stevens, Director

R. M. Barford, Director

	1978	1977 Restated (note 6)
Liabilities		
Current:		
Accounts payable and accrued liabilities	\$ 8,718	\$ 9,821
Income and other taxes payable	649	215
Current portion of long-term debt	—	48
Total current liabilities	9,367	10,084
Long-term:		
Provision for warranties, non-current portion	1,533	1,711
Long-term debt	—	537
Total long-term liabilities	1,533	2,248
Deferred income taxes	146	—
Shareholders' Equity		
Share capital (note 2)—		
Preferred shares	572	610
Common shares	2,537	2,537
Contributed surplus	456	450
Retained earnings	14,460	24,408
Total shareholders' equity	18,025	28,005
Total liabilities and shareholders' equity	\$29,071	\$40,337

(See accompanying notes)

Auditors' Report

To the Shareholders of
GSW Limited—GSW Limitée:

We have examined the consolidated balance sheet of GSW Limited—GSW Limitée as at December 31, 1978 and the consolidated statements of income, retained earnings, contributed surplus and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, subject to any recovery by Canadian Appliance Manufacturing Company Limited of warranty costs—preformation

products as set out in note 5 to the financial statements, these consolidated financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
February 16, 1979.

Clarkson, Gordon & Co.
Chartered Accountants.

Consolidated Statement of Income

GSW Limited—GSW Limitée

Year Ended December 31, 1978

(with comparative figures for 1977)

Stated in \$000's		1978	1977 Restated (note 6)
Sales		\$58,655	\$51,236
Operating costs:			
Employee compensation including benefits		14,630	14,315
Materials, supplies, services and other costs		40,829	35,278
Depreciation		619	736
Total operating costs		56,078	50,329
Income from operations		2,577	907
Other income (expenses):			
Interest income on notes of Canadian Appliance Manufacturing Company Limited		390	687
Interest income—other		185	211
Interest expense		(384)	(192)
		191	706
Income before income taxes		2,768	1,613
Income taxes—current		704	389
—deferred		414	99
		1,118	488
Income before equity interest in Canadian Appliance Manufacturing Company Limited and extraordinary item		1,650	1,125
Share of net income in Canadian Appliance Manufacturing Company Limited (note 5)		1,902	(267)
Income before extraordinary item		3,552	858
Extraordinary item:			
Gain on sale of housewares division (net of income taxes of \$89)		271	—
Net income for the year		\$ 3,823	\$ 858
Earnings per common share			
Income before extraordinary item		\$ 0.86	\$ 0.20
Extraordinary item		0.06	—
Net income for the year		\$ 0.92	\$ 0.20

(See accompanying notes)

Consolidated Statements of Retained Earnings and Contributed Surplus

GSW Limited – GSW Limitée

Year ended December 31, 1978 (with comparative figures for 1977)

Stated in \$000's		1978	1977 Restated (note 6)
Retained Earnings	Balance, beginning of year, as previously reported	\$24,876	\$23,581
	Adjustment of 1977 earnings (note 6)	468	—
	As restated	24,408	—
	Add net income for the year	3,823	858
		28,231	24,439
	Deduct dividends:		
	Preferred shares	29	31
	Common shares	13,742	—
		13,771	31
	Balance, end of year	\$14,460	\$24,408
Contributed Surplus	Balance, beginning of year	\$ 450	\$ 446
	Add gain on purchase of preferred shares	6	4
	Balance, end of year	\$ 456	\$ 450

(See accompanying notes)

Consolidated Statement of Changes in Financial Position

GSW Limited – GSW Limitée

Year ended December 31, 1978 (with comparative figures for 1977)

Stated in \$000's

1978

1977

Restated (note 6)

Funds were derived from:

Operations—		
Income before equity interest in Canadian Appliance Manufacturing Company Limited and extraordinary item	\$ 1,650	\$1,125
Add charges (credits) not requiring funds:		
Depreciation	619	736
Other	(195)	(27)
Total funds from operations	2,074	1,834
Proceeds on sale of non-current assets of housewares division less related closing costs and income taxes	417	—
Reduction of notes receivable from Canadian Appliance Manufacturing Company Limited	3,035	2,024
Proceeds on sale of fixed assets	979	325
Total funds provided	6,505	4,183

Funds were applied to:

Dividends	13,771	31
Reduction of long-term debt	537	48
Purchase of fixed assets	478	430
Redemption of preferred shares	32	255
Notes receivable from Canadian Appliance Manufacturing Company Limited	—	5,059
Total funds applied	14,818	5,823
Decrease in working capital for the year	\$ 8,313	\$1,640

(See accompanying notes)

Notes to Consolidated Financial Statements

December 31, 1978

1. Summary of significant accounting policies

The following is a summary of the significant accounting policies followed in the preparation of the consolidated financial statements:

(a) Inventory valuation—

Inventories are valued at the lower of cost and market. Cost is determined principally on a first-in, first-out basis. Cost includes material, labour and variable and fixed manufacturing overhead costs. No fixed manufacturing overhead costs are included in inventory valuation on quantities judged to be in excess of normal minimum inventory levels. Market value is net realizable value for finished goods and work in process, and replacement cost for raw materials.

(b) Fixed assets and depreciation—

Fixed assets are stated at acquisition cost, including transportation and installation charges.

Generally, depreciation is determined using the declining balance method. This results in accumulated depreciation of approximately two-thirds of the cost of an asset during the first half of its estimated useful life.

(c) Product warranty costs—

Anticipated costs related to product warranty are recorded in the year in which the product is sold.

(d) Pension plan costs (see also note 3)—

Costs relating to improvements in pension benefits granted by the company for employment in prior periods are amortized over fifteen years from the date such costs are established.

(e) Income taxes—

Income taxes are provided for on reported income in accordance with the tax allocation method of accounting. Under this method prepaid or deferred income taxes are recorded in respect of timing differences between reported income and current taxable income.

These timing differences relate principally to warranty costs which are deductible when paid rather than when accrued and differences between depreciation claimed for income tax purposes and that recorded in the accounts.

(f) Investment in Canadian Appliance Manufacturing Company Limited—

The investment in Canadian Appliance Manufacturing Company Limited is reflected on the equity method by which 40% of its net income is included in the income of the company. The acquisition costs in connection with this investment are being amortized over a five year period commencing in 1977.

(g) Other significant policies—

Continuing research and development costs are recognized as expenses when incurred. Engineering, tooling and patent costs are treated in the same manner.

2. Share capital

Preferred shares—5% cumulative of \$100 each, redeemable at \$105:

	Shares	Amount (\$'000)
Authorized and issued less redeemed:		
At December 31, 1977	6,103	\$610
Purchased for cancellation in year	383	38
At December 31, 1978	5,720	\$572

Subsequent to the year-end the directors of the company authorized the redemption of the 5,720 outstanding shares at the redemption price of \$105, to take place on March 9, 1979.

Common shares without par value:

	Authorized	Issued	Amount (\$'000)	
			1978	1977
Class A	1,356,464	191,941	\$ 113	\$ 772
B	20,000,000	406,313	259	1,765
C	1,360,369	1,118,055	657	—
D	21,360,369	2,385,747	1,508	—
	44,077,202	4,102,056	\$2,537	\$2,537

All classes of common shares are equal in every respect except that the Class "A" and Class "C" shares have 100 votes per share and the Class "B" and Class "D" shares have one vote per share. A holder of Class "A" or Class "C" shares may at any time convert them into an equal number of any other class of common shares. A holder of Class "B" or Class "D" shares may at any time convert from one to the other. All common shares participate equally, share for share, as to dividends, except that Class "C" and Class "D" shares were, under income tax legislation which expired December 31, 1978, eligible for tax deferred dividends.

The details of the net share conversions during the year are as follows:

	Shares Issued Dec. 31, 1977	Converted in year	Shares Issued Dec. 31, 1978
Class A	1,313,321	(1,121,380)	191,941
B	2,788,735	(2,382,422)	406,313
C	—	1,118,055	1,118,055
D	—	2,385,747	2,385,747
	4,102,056	—	4,102,056

During the year dividends totaling \$3.35 per share were declared and paid. The dividends of the Class "C" and Class "D" shares were paid out of Capital Surplus on Hand as defined by the Income Tax Act (Canada).

3. Pension plans

There are a number of pension plans for present and retired employees of the company. Based upon the most recent actuarial valuations the total estimated unfunded obligations of these plans as at December 31, 1978 amount to approximately \$673,000.

4. Remuneration of directors and officers

The company has nine directors. The aggregate remuneration paid to directors as directors was \$48,000. The company has eleven officers of whom three are also directors. The aggregate remuneration paid to officers as officers was \$656,000.

5. Canadian Appliance Manufacturing Company Limited

Effective January 1, 1977 the company and Canadian General Electric Company Limited (CGE) formed Canadian Appliance Manufacturing Company Limited (CAM Co.) to operate their combined major appliance operations. The combination has been accounted for by CAM Co. under the pooling of interests method by which the assets and liabilities were transferred at the values recorded in the accounts of the company and CGE.

In addition, CAM Co. acquired the major appliance business of Westinghouse Canada Limited during 1977. The effective date of the acquisition for accounting purposes was January 1, 1977. The company owns shares in CAM Co. having 50% of the total votes and 40% of the equity participation.

Set forth below is a summary of the financial position of CAM Co. as at December 31, 1978 and a summary of the results of its operations for the year then ended.

A. Summary of Financial Position

December 31, 1978

(with comparative figures for 1977)

(\$000's)

	1978	1977 (Restated)
Cash and receivables	\$ 44,278	\$ 42,867
Inventories	56,787	60,557
Other current assets	3,120	2,629
Total current assets	104,185	106,053
Short term bank borrowings	7,526	23,846
Other current liabilities	54,540	46,166
Total current liabilities	62,066	70,012
Working capital	42,119	36,041
Net fixed assets	24,218	24,749
Total fixed assets and working capital	66,337	60,790
Notes payable (net of current portion reflected above)	11,005	12,017
Term bank borrowings	30,000	30,000
Other non-current liabilities	8,681	6,992
Total non-current liabilities	49,686	49,009
Net assets	\$ 16,651	\$ 11,781
GSW interest therein	\$ 6,660	\$ 4,712
Unamortized acquisition costs	151	197
Equity interest in CAM Co.	\$ 6,811	\$ 4,909

B. Summary of Results of Operations

Year Ended December 31, 1978

(with comparative figures for 1977)

(\$000's)

	1978	1977 (Restated)
Sales of products and services	\$273,109	\$266,956
Operating costs:		
Employee compensation	84,480	85,065
Warranty costs—		
preformation products	—	2,877
Materials, supplies, services and other costs	172,431	172,530
Depreciation	2,973	2,593
Total operating costs	259,884	263,065
Income from operations	13,225	3,891
Financial expense	5,902	5,779
Income (loss) before income taxes	7,323	(1,888)
Income taxes	2,453	(1,380)
Net income (loss) for the year	\$ 4,870	\$ (508)
GSW interest therein	\$ 1,948	\$ (203)
Less amortization of acquisition costs	46	64
Equity interest included in statement of income	\$ 1,902	\$ (267)

CAM Co. did not provide adequately in its 1977 accounts for the cost of warranty service in respect of certain products sold prior to the formation of CAM Co. for which the obligation to provide warranty service was assumed by CAM Co.

The total estimated cost of providing this service of \$2,877,000 is included in the CAM Co. restated 1977 summary of results of operations. Of this amount, \$785,000 related to costs incurred and booked in 1977 and the remaining \$2,092,000 less income taxes of \$922,000 has been reflected by a restatement of the CAM Co. 1977 summary of financial position, and summary of results of operations.

CAM Co. management has directed its legal counsel to review the formation agreements of CAM Co. with a view to determining whether or not these warranty costs may be recoverable in whole or in part from CGE.

Any recovery of these costs would result in a restatement of 1977 income.

6. Prior period adjustment

As a result of the adjustments to CAM Co.'s financial statements referred to in note 5, the company's share (40%) of net income in CAM Co. for 1977 has been restated from income of \$201,000 to a loss of \$267,000, and its equity interest in the shares has been reduced by \$468,000 through a prior period adjustment. The company's 1977 consolidated balance sheet, consolidated statement of income, consolidated statement of retained earnings and consolidated statement of changes in financial position have been restated accordingly.

Company Organization

Building Products Division

D. G. Woodrow,
Vice-President and General
Manager

281 Birch Avenue
P.O. Box 526, Station "B"
Hamilton, Ontario
L8L 7X6

Galvanized Ware, Dairy
Pails, Stove Pipe, Waste
Baskets, Metal and Vinyl
Roof Drainage, Toilet
Compartments, Lockers and
Gym Boxes

Pump Division

M. O. Hickman,
General Manager

599 Hill Street West
Fergus, Ontario
N1M 2X1

Beatty, McDougall, Sta-Rite
Domestic Water Pumps,
Tanks and Accessories,
Barnes Sewage, Effluent and
General Purpose Pumps,
Engine Driven Contractor
Pumps, Sta-Rite Swimming
Pool Equipment

Industrial Division

W. R. Arbuthnot,
General Manager

599 Hill Street West
Fergus, Ontario
N1M 2X1

Wringer Washers,
Wringers and Components

Water Heater Division

W. A. Farnell,
Vice-President and General
Manager

599 Hill Street West
Fergus, Ontario
N1M 2X1

Electric and Gas
Water Heaters,
Glass Lined Range Boilers
and Storage Vessels

International Division

G. S. Dickson,
Vice-President, Corporate
and General Manager

1183 Finch Avenue West,
Suite 307
Downsview, Ontario
M3J 2G2

Sales of all product lines in
markets outside North
America

Research and Development Centre

F. O. Price,
Vice-President, Research
and Development

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